

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-01
PRS-01 /080 W
-----020251 094407 /73

R 011554Z MAR 77
FM AMEMBASSY CAIRO
O RUEHC/SECSTATE WASHDC 2279
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

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E.O. 11652: N/A
TAGS: EFIN EG
SUBJ: CENTRAL BANK ANNOUNCES COMPREHENSIVE INTEREST RATE INCREASES

REF: 72 CAIRO 208 (NOTAL)

1. CENTRAL BANK DEPUTY GOVERNOR AL-BANNA ANNOUNCED MARCH 1
COMPREHENSIVE PACKAGE OF INTERST RATE INCREASES AFFECTING
ENTIRE EGYPTIAN BANKING SYSTEM. FOLLOWING ARE DETAILS OF
ANNOUNCEMENT:

A. INTEREST RATE ON TIME DEPOSITS AND SAVINGS ACCOUNTS IS
INCREASED ONE PERCENT, FROM 5 PERCENT TO 6 PERCENT.
B. INTEREST RATE ON BANK LOANS TO PUBLIC AND PRIVATE
SECTOR COMPANIES, GOVERNMENT AUTHORITIES AND INDIVIDUALS
TO INCREASE ABOUT ONE PERCENT TO RANGE BETWEEN 8 AND 9
PERCENT.
C. POST OFFICE SAVINGS RATE IS INCREASED ONE PERCENT,
FROM 4 PERCENT TO 5 PERCENT. IN ADDITION POST OFFICE SAVINGS
WILL NOT BE EXEMPT FROM ALL INCOME TAXES. THIS EFFECTIVELY
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MEANS A DOUBLING OF RATE SINCE PREVIOUS NET INTEREST
RATE WAS ABOUT 2 AND ONE HALF PERCENT AFTER TAX DEDUCTIONS.
D. CENTRAL BANK DISCOUNT RATE INCREASED ONE PERCENT,
FROM 6 TO 7 PERCENT, ON LOANS TO NATIONAL BANKING SECTOR.
E. INTEREST RATE ON ALL NATIONAL BANK INVESTMENT
CERTIFICATES INCREASED TO 7 PERCENT. PREVIOUSLY INTEREST
RATE ON FIRST-ISSUE CERTIFICATES WAS 5 PERCENT, WITH

ADDITIONAL PERCENT INCENTIVE PAID TO RENEW THESE
CERTIFICATES AT THE END OF TEN-YEAR PERIOD. INCOME
FROM CERTIFICATES IS ALREADY EXEMPT FROM INCOME TAX.

2. COMMENT: INTEREST RATE INCREASES, SECOND IN PAST 14
MONTHS (REFTEL), ARE ALMOST CERTAINLY PART OF IMF REFORM
PACKAGE. ASIDE FROM ENCOURAGING DOMESTIC SAVINGS,
BANKING CONTACTS BELIEVE THAT IMPORTANT RESULT OF CHANGES
WILL BE TO INCREASE AVAILABILITY OF BANKING SECTOR FUNDS
FOR FINANCING OF GOVERNMENT DEFICIT. ACCORDING SOME
OBSERVERS, POSTAL SAVINGS BENEFITS COULD INCREASE AMOUNT
SAVED THROUGH THAT MEANS FROM CURRENT LE 80-90 MILLION
PER YEAR TO LE 200 MILLION PER YEAR; THIS IS DESIRABLE FOR
GOVERNMENT BECAUSE POST OFFICE LOANS TO GOE ARE SET AT ONLY
ONE PERCENT ABOVE POST OFFICE INTEREST RATE, I.E., AT 6
PERCENT. INCREASING INVESTMENT CERTIFICATE RATE TO 7
PERCENT COULD ALSO INCREASE VOLUME OF THESE SALES.

3. FOREIGN BANKS WITH WHOM WE HAVE TALKED ANTICIPATED
INCREASE SOME TIME AGO AND TOOK CHANGE INTO
CONSIDERATION IN THEIR FORWARD PLANNING. THEY SAY
POSTAL SAVINGS INCREASES COULD POSSIBLY AFFECT THEIR
SAVINGS VOLUME, BUT ONLY EXPERIENCE WILL TELL.
EILTS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CAIRO03646
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770071-0039
Format: TEL
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197703107/aaaadqbb.tel
Line Count: 86
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5e0d28ad-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 72 CAIRO 208
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2954582
Secure: OPEN
Status: NATIVE
Subject: CENTRAL BANK ANNOUNCES COMPREHENSIVE INTEREST RATE INCREASES
TAGS: EFIN, EG
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5e0d28ad-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009